REPORT BY THE AUDITOR GENERAL OF CALIFORNIA

REVIEW OF THE FISCAL AND OPERATIONAL ACTIVITIES OF THE ANTELOPE VALLEY FAIR

C-957

NOVEMBER 1990

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November 28, 1990 C-957

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

Summary

Our audit of the 50th District Agricultural Association, the Antelope Valley Fair (fair), disclosed that, during the years 1986 through 1988, the fair failed to establish operational and administrative controls to safeguard assets, failed to comply with state laws and regulations, and failed to promote sound management. Specifically, the fair did not adhere to budgeting and accounting requirements established by the Fair's Administrative Manual for the management of fair resources. Additionally, the fair did not adhere to state laws and regulations governing purchasing and contracting, nor did it follow procedures designed to ensure that all revenues are collected and properly accounted for. Moreover, the former fair manager manipulated fair resources and accounting records in an apparent attempt to conceal the fair's deteriorating financial condition from the fair's board of directors (fair board) and the Department of Food and Agriculture, and he pleaded nolo contendere to charges that he embezzled fair funds. When the budget, accounting records, and financial statements do not accurately reflect the fair's operations, and when standard purchasing and contracting procedures are

not followed, the fair board and the State have no assurance that the fair's resources are used in the most economic and efficient manner and for authorized purposes.

Background

The State of California, through the Department of Food and Agriculture's Division of Fairs and Expositions (division), oversees the operations of California's 80 local fairs. Local fairs include 54 district agricultural association fairs, 24 county fairs, and 2 citrus fruit fairs. In fulfilling its responsibility for administering the local fairs, the division reviews and approves the budgets and allocates state funds to support the operations of the local fairs.

The division has established the Fairs Administrative Manual (FAM) as a management guide. The FAM reflects the policies, procedures, and regulations issued by the Department of Food and Agriculture for fiscal management and administration of local fairs. For fairs that receive state funds, the FAM also guides fair officials in implementing accounting and other procedures to meet the minimum requirements of laws and regulations governing fair activities. Fair managers are responsible for implementing the provisions of the FAM and for ensuring that fair business is conducted according to the FAM. Fair managers are appointed by fair boards and serve at their pleasure.

The Antelope Valley Fair is located in Lancaster, California, approximately 70 miles northeast of Los Angeles. According to the fair's financial records, the 1989 budget for the fair was approximately $2.2 million. The State provided a total of more than $570,000 to support the fair's activities from 1986 through 1988. The fair reported that it had ended 1988 with revenues exceeding expenditures by approximately $105,000. However, after receiving the results of their division's procedural review of the fair's 1988 operations, the fair board discovered approximately $250,000 in amounts payable to vendors that had not been disclosed to it. Thus, despite its report to the contrary, the fair actually ended the 1988 year with an approximate $145,000 deficit, which the former fair manager apparently had concealed from the board.

Scope and Methodology

The purpose of our audit was to independently evaluate the fiscal and operational activities of the fair and to investigate allegations related to the activities of the former fair manager. In addition to using our staff, we contracted with KPMG Peat Marwick to assist us in conducting financial analyses of the fair's operations for the years 1986 through 1988 and for the first quarter of 1989.

Our staff used investigative audit techniques to assess allegations regarding the former fair manager's activities. These techniques included interviews with fair staff, fair board members, fair contractors, and the Los Angeles County Sheriff's Department. Further, we reviewed documents, obtained corroborative evidence, and made independent assessments to substantiate allegations. We shared all pertinent documents concerning the former fair manager with the Los Angeles County Sheriff's Department for consideration in their criminal investigation of the former fair manager. To avoid interference with the investigation by Los Angeles County Sheriff's Department, we did not interview the former fair manager.

We and our contractors reviewed the internal controls over the fair and its satellite wagering program; determined the reliability of the fair's accounting records and financial reports by reviewing invoices, contracts, and other disbursements; conducted tests of revenues; and evaluated the overall fiscal operations of the fair.

The Fair Did Not Follow Budgeting and Accounting Requirements

The former fair manager failed to ensure that the fair had sufficient resources to meet its obligations at year end. Additionally, he manipulated the fair's resources and accounting records, concealing the fair's expenditures and outstanding liabilities from the fair board.

According to the FAM, the manager is responsible for preparing the fair's annual budget, for ensuring that sufficient resources are available at the end of the year to meet all of its obligations promptly, and for providing a reasonable balance reserve for

contingencies. A complete and detailed budget must reflect all proposed expenditures and estimated revenues for the ensuing year. Changes in the budget are not permitted without the approval of the division and the fair board. State law stipulates that persons who incur expenditures in excess of approved budget allotments are personally liable for excess expenditures.

The fair's expenditures for maintenance and general operations, equipment, and capital improvements for 1986 through 1988 exceeded budgetary allotments by a total of approximately $1 million. For example, in 1988, the fair's expenditures exceeded budgetary allotments for all expenditure categories by approximately $842,000. However, the former fair manager apparently failed to obtain the approval of the fair board to exceed the budgetary allotments. The minutes of the board meetings indicate that the fair board approved only two budget amendments during 1987 and 1988: one revision for approximately $340,000 in 1988 and one for approximately $23,000 in 1987. We found no evidence that the former fair manager obtained fair board approval to make other changes or to exceed budgetary allotments during these years.

Each month the former fair manager provided the board with an income summary, a listing of disbursements, and a consolidated report of the fair's accumulated revenues, expenditures, and cash balance. However, the former fair manager also reportedly manipulated fair resources and accounting records, concealing from the board the extent to which the fair's resources had been depleted and its liabilities increased. Our contractor determined that, at December 31, 1987, the fair owed approximately $47,000 to various creditors; during the ensuing 12 months, the fair's year-end accounts payable climbed to more than $321,000.

Concealing the fair's true financial condition, the former fair manager reportedly instructed staff to take measures to present a false picture of the fair's actual liabilities. The FAM requires the fair to maintain accounting records that include a complete record of every financial transaction from start to finish. However,

the manager reportedly directed staff to falsify the monthly listings of disbursements, excluding checks from listings or reflecting the expenditure as void. From 1986 through 1988, a total of nearly $126,000 in checks were excluded from the disbursement listing.

The former fair manager also apparently directed his staff to delete delinquent accounts payable from the accounting records; to split bills into smaller amounts to avoid board scrutiny; and to make partial payments to creditors in uneven amounts, which gives the appearance of full payment. As a result of these actions, the financial records and reports of the fair were inaccurate.

Meanwhile, according to fair staff, the former fair manager reported to the fair board that the fair was in a strong cash position. To achieve the appearance of this position, the former fair manager reportedly directed staff to move cash from the fair's operating account to a money market account rather than to liquidate its liabilities with the cash. At December 31, 1988, the fair maintained a certificate of deposit valued at nearly $105,000 although accounts payable totaled more than $321,000.

Because of this manipulation of the fair's resources and records, the board was unaware of the fair's actual financial condition and the extent to which the former fair manager had depleted its resources.

The Fair Did Not Adhere to State Purchasing Procedures

The fair did not follow FAM procedures for purchasing materials and supplies. The FAM requires that fairs use authorized purchase orders to obtain materials and supplies, matching those purchase orders with related invoices before making payments to vendors. In addition, the FAM requires fairs to obtain at least three competitive bids for purchases of materials and supplies costing more than $850; they should also obtain bids for purchases of materials and supplies costing $850 or less, unless obtaining the bids is impractical. For purchases of $5,000 or more, the FAM requires sealed bids issued through the State's Office of

Procurement. Additionally, except for purchases from certain vendors and governmental entities, the FAM requires the division to approve purchases costing more than $850.

Our contractor found that many of the fair's purchases were completed without purchase orders or with purchase orders that were incomplete or unauthorized. Our contractor identified 221 purchase orders issued during 1987 and 1988 that reflected no dollar amounts for the materials and supplies ordered, 86 purchase orders that were unauthorized, and 68 purchases for which there were no purchase orders in the purchase order file. In addition, our contractor identified 27 purchase orders issued for amounts greater than $850 and 3 purchase orders for amounts over $5,000 that did not have the requisite bids and approval.

Our contractor also found that staff did not issue purchase orders in sequential order, they backdated some, and they did not always compare invoices with purchase orders before payment. According to fair staff, the former fair manager did not always require the use of purchase orders, and he instructed them to postdate purchase orders after receiving invoices from the vendors. In addition, the former fair manager did not always require competitive bidding before staff prepared purchase orders. Moreover, when bids were obtained, they were generally verbal, and the former fair manager did not require documentation of the bids. Without following proper procedures for purchasing materials and supplies, the fair board and the State cannot be assured that fair purchases are properly authorized and for legitimate purposes, that goods and services ordered are received, and that amounts paid are appropriate.

The Los Angeles County Sheriff's Department conducted an investigation of certain purchases made by the fair and determined that the fair issued purchase orders and paid $506 for tires that the former fair manager put on his personal vehicles. As a result, the former fair manager was charged with grand theft by embezzlement. He pleaded nolo contendere upon stipulation that the charge be treated as a misdemeanor.

The Fair Did Not Always Adhere to State Contracting Requirements

The fair did not always adhere to state laws and regulations pertaining to service and construction projects. With certain exceptions, the California Public Contract Code requires competitive bidding for all contracts entered into by any state agency for services to be rendered to the State. The FAM requires fairs to use contracts when the fair determines that it cannot perform the service and that the cost of the service exceeds $250. Additionally, the Department of General Services' approval is required for contracts exceeding $10,000. A certified copy of an approving board resolution is required for all contracts. At least three bids and the documents comprising the solicitation for bids and related correspondence must accompany each construction contract submitted for approval to the Department of General Services or the division.

We identified payments in excess of $250 that were made for services without a valid contract. For example, during 1988, the fair made payments in excess of $250, totaling approximately $6,400, for plumbing services obtained without a contract. In addition, during a review of 20 service contracts from 1987 and 1988, our contractors identified 7 contracts over $10,000 each that were not approved by the Department of General Services and 3 contracts that were not approved by the fair board. Further, there was no evidence of requests for bids for 2 contracts and no evidence of signed contracts for 2 agreements.

Moreover, we and our contractor found that the fair paid six contractors approximately $650,000 for various construction projects undertaken from 1986 through 1988. However, our contractor found no evidence of any contracts and could find evidence that the fair requested competitive bids for only two of these projects. In one case, a contractor provided a proposal and contractual agreement for the project; however, the former fair manager failed to sign and legally execute the agreement.

In another case, the fair paid two invoices submitted by one contractor for over $45,000 although the fair had not contracted for the services provided by the contractor. According to fair

staff, the former fair manager preferred to use day labor practices rather than to solicit bids and contract for projects. However, the fair did not hire this contractor under day labor practices, which require that the fairs furnish materials and hire specialized labor as temporary fair employees. Instead, the fair paid the contractor's charges for labor and materials as they were reflected on the invoices the contractor submitted to the fair.

By not following established procedures for contracting and for day labor practices, the board and the State are not assured that the fair obtained services and completed projects at the lowest possible cost. Further, without approved and executed contracts, the board and the State are not properly protected against losses resulting from lawsuits, substandard work, and contractor defaults.

Fair Controls Over Revenues Are Weak

The fair did not follow established procedures for handling receipts for its horse show events and did not maintain proper control over the event entry forms. The FAM requires the fair to issue written receipts for all entry fees received and to deposit those fees promptly. In addition, the fair designates entry records and original entry forms as official state documents that must be maintained at the fair. However, according to fair staff, they did not issue written receipts for the entry fees. Further, the former fair manager instructed fair staff to give entry fees and entry forms from horse show events directly to the horse show manager, a private contractor hired by the fair to manage horse show events. We asked the horse show manager to return the entry forms for 1986 through 1989 so we could check them for accuracy and determine whether correct fees were collected and deposited. She was unable to produce the forms for 1986, 1987, and 1988, and the entry forms she provided for 1989 were incomplete. Because fair staff did not deposit the fees with other fair receipts or maintain control over the entry forms, the fair has no assurance that the proper fees were charged and that the amounts collected were actually deposited. For example, over $7,500 in horse show

fees from the 1985 fair was left in a desk drawer at the fair and not discovered until June 1986, nine months after the end of the fair.

We also found a weakness in controls over admission revenues for the fair's satellite wagering facility. Specifically, fair staff reported that they were not required to verify and be accountable for the numerical sequence of the admission tickets issued by the satellite wagering facility. This verification would ensure that all tickets and receipts are properly accounted for in accordance with FAM criteria. The FAM states that proper control of revenues includes control of the source of revenues and reconciling amounts received with tickets sold. FAM procedures include verifying tickets sold and tickets returned and reconciling tickets sold with the admission receipts.

Failure to implement this procedure enabled the former manager of the satellite wagering facility to steal admission receipts without detection. In 1989, the Los Angeles County Sheriff's Department conducted an investigation and concluded that the former manager of the facility had embezzled approximately $1,700 in admission receipts over a period of two months. The sheriff also concluded that this former manager had embezzled approximately $1,300 from funds the facility uses to make credit card advances for the public. The former manager of the facility was charged with grand theft and pleaded nolo contendere upon stipulation that the offense be treated as a misdemeanor.

In addition to lacking control over the satellite wagering facility's admission tickets, the fair failed to implement controls to safeguard cash received from fair admissions. According to the FAM, the fair should provide adequate physical facilities to safeguard cash at all times and allow only trained personnel access to money rooms. Controls should be established to ensure that the public and personnel other than those whose job is to receive cash will not have access to the money.

According to fair staff, permanent and temporary employees and most members of the board had the combination to the bank

room, and there is no log of the individuals who had the combination. Individuals not responsible for receiving admissions fees were allowed in the bank room during the fair, and they were occasionally left in charge of the bank room. In addition, keys to the file cabinet where the cash boxes and bank deposits are kept were not restricted, and the number of keys in circulation was unknown. Moreover, the file cabinet was not kept locked at all times. According to fair staff, two deposit bags containing approximately $5,200 disappeared from the bank room in 1987, and the theft was not discovered until the bank reconciliation was prepared two months later.

We noted another weakness in controlling cash receipts. We identified one occasion in which the former fair manager apparently used funds belonging to the fair's carnival operator to replace $1,200 in rental receipts he had failed to collect from a promoter. According to fair staff, the carnival operator left an envelope containing approximately $2,000 in cash to pay for a shipment that was to arrive C.O.D. The former fair manager reportedly instructed fair staff to falsify a page in the fair's cash receipts journal and to use the carnival operator's money as the unpaid rental receipts from the promoter. He then instructed fair staff to deposit the cash that belonged to the carnival operator to cover the amount reflected in the journal. The shipment never arrived, and the remaining funds belonging to the carnival operator reportedly disappeared.

Conclusion

The fair failed to follow procedures designed to ensure that fair resources are protected and used in the most economical and efficient manner. Specifically, the fair did not follow established budget and accounting requirements for managing fair resources. In addition, the former fair manager directed staff to manipulate accounting records and financial reports, concealing his mismanagement from the State and from the fair's board of directors. As a result, the fair's financial reports are inaccurate, and the State and the board of directors have no assurance that

fair resources were used in the most economic and efficient manner and for authorized purposes. The fair also did not adhere to state contracting laws and state regulations pertaining to contracting and purchasing. Consequently, the State and the fair's board of directors have no assurance that fair purchases were properly authorized and for legitimate purposes, that goods and services the fair ordered were received, and that the amounts the fair paid were appropriate. Furthermore, the State and the fair were not properly protected against potential losses resulting from lawsuits, contractor defaults, and substandard work. Finally, the fair failed to implement procedures designed to protect cash receipts. As a result, the State and the board of directors lack assurance that the fair received all the revenues to which it was entitled and that the fair accounted for all the revenues it received.

Recommendations

To ensure that fair accounting records and financial reports accurately reflect the fair's financial condition and results of operations and to ensure that fair resources are used in the most economic and efficient manner and for authorized purposes, the board of directors should require the fair to implement budgeting and accounting procedures established by the FAM for the management of fair resources.

To ensure that fair purchases are properly authorized and for legitimate purposes, that goods and services the fair orders are received, and that the amounts the fair pays are appropriate and as low as possible, the board of directors should require the fair to adhere to state regulations pertaining to the acquisition of goods and services.

To ensure that the State and the fair are properly protected against potential losses resulting from lawsuits, contractor defaults, and substandard work, and to ensure that the fair obtains services and completes projects at the lowest possible cost, the board of directors should require the fair to adhere to state contracting laws and state regulations pertaining to construction projects and service contracts.

To ensure that the fair receives all the revenues to which it is entitled and that the fair accounts for all the revenues it receives, to ensure that the proper fees are charged and that the amounts collected are actually deposited, and to safeguard all money from robbery, burglary, and misappropriation, the board of directors should require the fair to adhere to procedures prescribed in the FAM for controlling revenues.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of the letter report.

Respectfully submitted,

KURT R. SJOBERG
Auditor General (Acting)

Attachment The response from the Antelope Valley Fair to this letter report.

ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL

November 20, 1990

KURT R. SJOBERG
Acting Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

This letter is in response, as requested, to your draft report C-957 "A Review of Fiscal and Operational Activities of the Antelope Valley Fair", dated November, 1990.

The Executive Committee of the Board of Directors has reviewed your audit findings for the years 1986 through 1988, relative to the mismanagement practices and illegal activities of the former Fair Manager, C. W. Adams.

I would like to point out it was, in fact, the Board of Directors who had suspicions of manipulations and illegal acts by the former manager.

The Board, on several occasions in the past, had asked for a routine state audit and was told of personnel shortages which had continually delayed an audit.

The Board initiated internal investigation which confirmed their suspicions and then immediately notified the Department of Fairs and Expositions.

The Board President, at that time, requested the assistance of State Senator Newt Russell in securing an audit of our Fair. Shortly thereafter, your office conducted an audit which has resulted in this current draft.

Subsequent to the Board's internal investigation and confirmed suspicions, the Board, in April 1989, suspended the Fair Manager and asked for a response to our concerns. After several days, the Manager tendered his resignation without responding to the concerns.

50th District Agricultural Association, 155 East Avenue "I", Lancaster, California 93535 805/948-6060 FAX 805/942-2135

With direction from the Board, internal controls were instituted and monitored. The Assistant Manager and an Acting Fair Manager carried out the directives under a hands-on Committee involvement by the Directors.

In July 1989, a new Fair Manager was hired and your agency audit has been conducted under his tenure.

Your audit revealed many areas of weakness according to FAM procedures.

The Board would like to assure your office that under our new management team, we have made many changes to correct these deficiencies.

Our 1990 Fair was very successful and the current Fair cash balance as of November 1st is approximately $600,000.00.

Our Directors Finance Committee is chaired by a Certified Public Accountant and this Committee reviewes invoices on a bi-monthly basis and monitors all purchase orders. The Fair is now following FAM requirements relative to purchasing of materials and supplies and contracts.

We have corrected the procedure for handling Horse Show events concerning entry and stall rental receipts. Proper logging and reporting forms are now in use.

Concerning Satellite Wagering admission revenues, we now have a color coded alternate day numbering system with start and stop numbering monitored daily and revenues logged and receipted properly. We have also renovated our cash room facility.

Concerning the Fair Bankers Room, we have rekeyed the Bankers Room with only two sets of keys; Banker and Fair Manager. The Bankers Room money cabinet also has only two sets of keys; Banker and Fair Manager.

Mr. Kurt R. Sjobert
November 20, 1990
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A fairgrounds gate security policy has been developed and is in place which has greatly helped to protect the state property of the fairgrounds.

In conclusion, the Board of Directors and the Manager would like to commend the audit team headed by Tim Bryant. They were helpful in giving the Fair advice and direction in correcting and instituting proper procedures and safeguards in the operation of our District Fair.

Sincerely,

Ralph V. Bozigian

RALPH V. BOZIGIAN, President
Antelope Valley Fair Board

cc: Members of the Board of Directors
James Pacini, Fair Manager